

IT IS WHAT IT IS

AS WE ENTER YEAR THREE OF A GLOBALLY DISRUPTED MARKETPLACE, THERE ARE HEADWINDS AND UNDERCURRENTS TO NAVIGATE IN THE ECONOMY.



RYAN JOHNSON,
NATIONAL DIRECTOR COMMERCIAL
AND INDUSTRIAL

SO HERE WE ARE – INTO THE THIRD year of a worldwide pandemic that has dislocated life as we knew it and continues to confront us head on.

Undeterred, Bayleys' commercial and industrial team has started the year as crazily busy as we finished up 2021 and we're pleased to be so proactively involved in the market.

Rolling with the punches is what we all have to do – doubly so now, in the face of Omicron.

Here in New Zealand we have the benefit of observing and learning from our overseas counterparts given they've been several steps ahead of us in the viral chain.

Bayleys' global real estate partner Knight Frank is reporting that internationally, the transactional side of the broader real estate market is back on track, with those in Australia, the UK and wider Europe now largely living with the virus.

Our Knight Frank colleagues have identified the same handbrakes for the commercial and industrial market as we have – supply chain disruption, challenges in the logistical side of doing business as COVID's tentacles sabotage workforce numbers in waves, and volatility around interest rates and the cost of debt.

No doubt the first stage of the new real estate cycle will be a rebalancing of that grey area between vendor and purchaser expectations and this will be influenced by macro-economic factors, supply-demand fundamentals and investor confidence.

While the Reserve Bank of New Zealand has a mandate to keep inflation between one and three percent, consumer price index (CPI) figures released by Stats NZ late-January show annual price inflation of 5.9 percent – the biggest annual rise since the June 1990 quarter, when it blew out to 7.6 percent.

Economists say aggressive action will be needed by the Reserve Bank if inflation is to be tamed, with an increase in the official cash rate inevitable, along with the associated trickle down to borrowing fundamentals.

On the investment side, even with an increase in term deposit rates, these rates

can't keep abreast of current inflation and real returns are diving deep into negative after-tax territory.

Investors are bracing for a significant lift in the cost of debt and this will lead to a softening of capitalisation rates and pricing this year.

Throw lumpy supply chain headaches into the commercial and industrial real estate pot and things get really interesting.

Knight Frank's *Australia 2022 Outlook Report* identifies a number of niggles that also apply to New Zealand – all overlaid with a veil of uncertainty.

Panic buying; demand for just-in-time storage as occupiers wrestle to find overflow space, the battle for last-mile distribution to get closer to consumers who have become reliant on ecommerce; and the escalating cost of development land – and lack thereof.

As other parts of the world ease out of lockdowns and controlled health measures, the logistical impact of Omicron is starting to be felt in New Zealand. How our labour force copes and how national distribution networks manage – remains to be seen.

The wider commercial property market has been resilient throughout the pandemic here, with 2021 a record year for the sector with \$12 billion worth of sales concluded across the national market.

While vacancy rates are still low, this will be tempered by increased uncertainty in the office sector as we enter the third year of hybrid working.

Net rents will increase on the back of inflationary pressures, we will see a contraction in the new development pipeline due to a shortage of materials and offshore labour, and hospitality and visitor-orientated businesses will take time to rebound.

On a positive note, I believe this will be the year for medical/healthcare and aged care assets to shine if the big guns are anything to go by.

Reflecting significant growth in private sector medical centres, property

fund manager Centuria has syndicated offerings in the healthcare sector, and has bought a portfolio of New Zealand aged care homes as it looks to expand its presence in that sector.

ASX-listed fund manager Elanor is also actively offering New Zealand investors access to healthcare-related funds through investment company Jasper.

This edition of *Total Property* has 132 commercial and industrial property opportunities for sale across New Zealand – an encouraging way to kickstart 2022.

We also have feature editorials on sustainability in the built environment, the reinvention of Wellington on the back of infrastructural initiatives, and occupier trends in the office sector.

Let's take this year by the horns and make some noise – the Bayleys team is up for it.

WHO ARE WE?

Bayleys is New Zealand's largest commercial and industrial real estate agency and is the only significant national real estate business in this sector of the market that is New Zealand owned and operated.

We operate in a family-founded and values based corporate environment that demands integrity, excellence and results. In today's changing world we continue to innovate and focus on strong working relationships to deliver results that exceed our clients' expectations.



Bayleys have developed a true global partnership with Knight Frank, through our acquisition of their local business and their representation globally. This gives our clients access to a globally-connected network spanning 60 markets. Our closest connections are to the Knight Frank Asia Pacific Group with 8,265 people in 154 offices all working collaboratively to find the right buyer for your property.

OUR INDUSTRY RECOGNITION

#1  RICS

Agency Team of the Year NZ 2020 & 2017
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the RICS Awards.

Industrial Agency Team of the Year NZ 2018
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the 2018 Sales Awards.

#1  REINZ
REAL ESTATE INSTITUTE
OF NEW ZEALAND

Bayleys is proud to have been recognised at the REINZ Awards for Excellence in Real Estate.

- Large Commercial and Industrial Office of the Year (2018-2021)
- Commercial and Industrial Salesperson of the Year (2018-2019)
- Small Business Broking Office of the Year (2019)
- Best Multi-Media Marketing Campaign of the Year (2018 & 2020)

2,550
SALES AND LEASING
TRANSACTIONS

\$3.6B
OF PROPERTY SOLD
OR LEASED

230
COMMERCIAL SALES
AND LEASING AGENTS

*For the period 1st April 2020 - 31st March 2021.